Third Quarter Update

For the nine months ended December 31, 2006

Heritage Fund

06-07

Alberta Heritage Savings Trust Fund

Alberta

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THIRD QUARTER UPDATE

DECEMBER 31, 2006

Alberta Heritage Savings Trust Fund

QUARTER IN REVIEW

At December 31, 2006, the fair value of net assets held in the Alberta Heritage Savings Trust Fund (the Fund) totaled $16.3 billion, an increase of $891 million from $15.4 billion at the beginning of the quarter and up $1.464 billion from $14.8 billion at the beginning of the year.

Excluding transfers into the Fund, the performance from unrealized capital gains and investment income accounted for the Fund's investment return of 7.9% during the quarter compared to 3.2% for the same period last year. Over nine months, the Fund has earned an overall investment return of 10.0% compared to 10.3% for the same period last year.

The table below summarizes the overall increase in the fair value of the Fund.

Change in Fair Value of Net Assets

(millions)

	3rd Quarter	Nine Months
Fair value, beginning of period	**$ 15,393**	**$ 14,820**
Investment income, cost basis	691	1,194
Transfers to the GRF	(681)	(1,042)
Retained for inflation proofing	10	152
Increase in unrealized gains	531	312
Transfers from the GRF:		
Budgeted transfers	350	750
Access to the Future	-	250
Total increase in net assets	**891**	**1,464**
Fair value, end of period	**$ 16,284**	**$ 16,284**
Cost, end of period	$ 14,646	$ 14,646
Accumulated unrealized gains	$ 1,638	$ 1,638

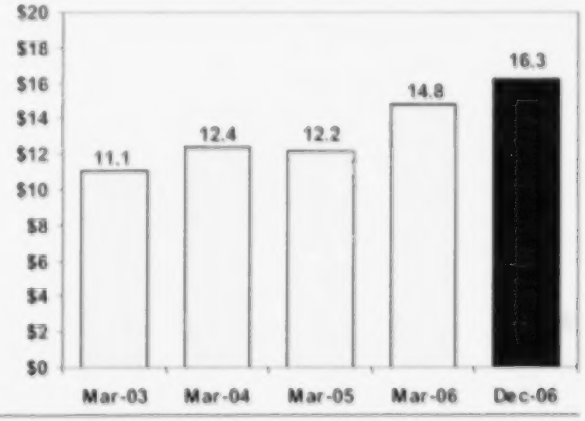
According to the Fund's legislation, all of its investment income is transferred to the General Revenue Fund (GRF) except for an amount retained in the Fund to protect its value from inflation. The Fund earned investment income of $691 million this quarter, of which $681 million is transferred to the GRF, leaving $10 million retained in the Fund for inflation proofing. Over nine months, the Fund earned investment income of $1.194 billion, of which $1.042 billion was transferred to the GRF, leaving $152 million retained in the Fund for inflation proofing. This quarter, less was retained in the Fund than previous quarters due to a reduction in the estimate of inflation for the 2006-07 fiscal year (see forecast, page 3).

A strong increase in world equity markets and real estate during the quarter contributed to the overall increase in unrealized capital gains on investments of $531 million. Over nine months, the increase in unrealized capital gains was lower at $312 million due to a decline in equity markets in the first quarter of the fiscal year.

The 2006-07 Budget provides for new contributions of $1 billion to be transferred into the Fund during the current fiscal year from the GRF. This quarter, $350 million was received bringing the total amount received from the GRF over nine months to $750 million. In addition, the *Access to the Future Act* provides that up to $3 billion may be transferred into the Fund from the GRF, of which $250 million was received last quarter, adding to the $750 million received last year.

Fair Value of Heritage Fund Net Assets

(billions)



The following table summarizes the change in major world equity and bond market indices during the quarter and nine months ended December 31, 2006.

Major Global Indices
Period ended December 31, 2006
(percent)

	3rd Quarter	Nine Months
Stock Markets		
Canadian		
S&P/TSX Composite Index	10.4	8.6
United States		
S&P 1500 Index (US $)	6.8	10.0
S&P 1500 Index (Cdn $)	11.6	9.8
Non-North American		
MSCI EAFE Index (Cdn $)	15.3	15.3
Canadian Bond Market		
SC Bond Universe Index	0.7	4.5

The Canadian stock market, represented by the Standard & Poor's Toronto Stock Exchange (S&P/TSX) Index, increased by 10.4% this quarter and 8.6% over the past nine months. The Index is comprised of ten major sectors, of which the materials and information technology sectors led the Index with returns of 20.7% and 19.1% respectively. The telecommunications, consumer staples and energy sectors had the lowest returns of negative 1.1%, 7.4% and 7.7% respectively. In Canada, unemployment, inflation and interest rates continue to remain relatively low. During the quarter, oil prices continued their decline. West Texas Intermediate crude oil price closed the quarter at $61.05 U.S. per barrel compared to $62.91 U.S. per barrel at the beginning of the quarter and $66.63 U.S. at the beginning of the year.

The Canadian dollar weakened against the U.S. dollar this quarter but was relatively unchanged since the beginning of the year. One U.S. dollar purchased $1.17 Canadian at December 31, 2006 compared to $1.12 at September 30, 2006 and $1.17 at March 31, 2006. When the Canadian dollar is weaker, the value of U.S. dollar investments increases when translated into Canadian dollars, resulting in higher investment returns. Over the past three months, the U.S. market measured by the Standard & Poor's (S&P) 1500 Index increased by 6.8% in U.S. dollars and 11.6% in Canadian dollars.

The non-North American market measured by the Morgan Stanley Capital International Index for Europe, Australasia, and the Far East (MSCI EAFE) Index, increased by 15.3% this quarter in Canadian dollars.

INVESTMENT INCOME

The Fund's net income of $1.194 billion over the nine months ended December 31, 2006 was higher than the income of $914 million recorded for the same period last year. Over nine months, interest, dividends, real estate income and security lending income totalled $437 million net of administrative expenses, compared to $349 million for the same period last year. Net realized capital gains from sale of securities and gains from derivative transactions totalled $757 million over nine months, compared to $565 million for the same period last year. A summary of net income by asset class is provided on page 21, Note 7.

FORECAST INCOME

The Fund's forecast annual income is reviewed and updated as the year progresses. The estimated forecast income for the year is currently $1.602 billion. This represents an increase of $685 million from the Fund's budgeted income at the beginning of the year totalling $917 million, which is included in the 2006-07 Government Estimates. The increase is due to an improvement in world equity markets in the third quarter and higher than expected capital gains.

Heritage Fund Investment Income
(millions)

On a consolidated basis, after the elimination of income from Alberta provincial corporation securities, the forecast income is $1.566 billion.

FORECAST INFLATION PROOFING

In order to maintain the value of the Fund, the 2006-07 Government Estimates provided for inflation proofing of the Fund in the amount of $242 million based on inflation estimate of 1.8%. In the third quarter, the estimate of inflation for the year was reduced to 1.5%. As a result of this change in estimate, the current annual inflation-proofing forecast for the Fund was reduced by $40 million to $202 million. Three quarters of this amount or $152 million has been accrued for the nine months ended December 31, 2006.

TRANSFERS PAYABLE TO THE GRF

All of the Fund's net income is transferred to the GRF except for an amount retained in the Fund to protect its value from inflation. At December 31, 2006, the outstanding income transfer payable to the GRF totaled $370 million.

	(millions)
Due to the GRF at March 31, 2006	$ 78
Add: Net income earned for nine months	1,194
Less: Amount retained for inflation proofing	(152)
Less: Payments to the GRF	(750)
Due to the GRF at December 31, 2006	$ 370

SUMMARY OF NET ASSETS

The table below shows the net assets of the Fund at cost and fair value.

	(millions)	
	Cost	**Fair Value**
Investments (see Note 3, page 13)	$ 15,015	$ 16,653
Accounts receivable	1	1
Due to the GRF	(370)	(370)
Net assets at December 31, 2006	**$ 14,646**	**$ 16,284**

INVESTMENTS

Asset Mix

The Fund's investments are disclosed on page 13, Note 3. The investment strategy is to invest in a diversified portfolio to optimize long-term returns at an acceptable level of risk. The policy asset allocation is reported in the Fund's 2006-09 business plan as follows:

Investment Mix Policy
(percent of fair value)

	Long Term Policy Asset Mix	Actual Asset Mix Dec 06	Actual Asset Mix Mar 06
ASSET CLASS			
Fixed income			
Money market	1.0	0.3	2.0
Fixed income securities	29.0	29.8	31.3
	30.0	**30.1**	**33.3**
Public equities			
Canadian	15.0	16.3	17.0
United States	15.0	17.7	16.8
Non-North American	15.0	17.2	16.8
	45.0	**51.2**	**50.6**
Real estate	**10.0**	**10.2**	**9.6**
Absolute return strategies	**5.0**	**4.8**	**3.8**
Private equities	**4.0**	**2.3**	**1.7**
Private income	**4.0**	**1.1**	**0.6**
Timberland	**2.0**	**0.3**	**0.4**
	100.0	100.0	100.0

The majority of the Fund's investment portfolio totaling $16.653 billion, at fair value, is held in pooled investment funds established and administered by Alberta Finance. At December 31, 2006, the fair value of fixed income securities totaled $5.021 billion, or 30.1% of the total investment portfolio, and included deposits and short-term securities, bonds, mortgages and loans. Public equities total $8.531 billion or 51.2% of the portfolio and include shares of major corporations in Canada, the U.S., Europe, Asia and emerging markets. The real estate portfolio totaling $1.692 billion or 10.2% of the portfolio is located primarily in Canada. It includes a mix of office (52%), retail (30%), industrial (13%), and residential (5%), properties. The properties are located in Ontario (57%), Alberta (31%), Quebec (10%) and British Columbia (2%). Absolute return strategies comprise $792 million, or 4.8% of the portfolio, and encompass a wide variety of investments with the objective of realizing positive

returns regardless of the overall market direction. A common feature of many of these strategies is buying undervalued securities and selling short overvalued securities. Private equities total $382 million, or 2.3% of the portfolio. Private income securities totaling $179 million, or 1.1% of the portfolio, include infrastructure related projects that are structured to yield high current income. The timberland investment totaling $56 million, or 0.3% of the portfolio, represents a partnership interest in forestry land located in British Columbia.

Investment Valuation

Investments and investment income are recorded in the financial statements of the Fund at cost in accordance with government accounting policies. The fair value of the Fund and its investments are provided for information purposes. Management uses fair value to assess the investment performance of the fund against market-based benchmarks.

The Fund's policy is to write-down the cost of those securities where the decline in value below cost is not considered temporary. On a quarterly basis, management reviews the Fund's investment portfolio to identify those securities where the fair value has declined significantly below cost. Based on management's review this quarter, additional write-downs of $14 million were recorded bringing total write-downs for the first nine months of 2006-07 to $37 million.

ADMINISTRATIVE EXPENSES

Income from pooled investment funds is net of internal management expenses and external management fees. Internal management expenses include those expenses recovered by Alberta Finance for management of the Fund and investment pools. External fees include fees charged to investment pools by external investment managers based on a percentage of net assets under management at fair value and committed amounts in the case of private equity and private income pools.

The Fund's total administrative expenses for the nine months ended December 31, 2006, including amounts deducted from the investment income of the pooled funds, amounted to $40.4 million or 0.25% of the Funds net assets at fair value compared to $32.39 million or 0.24% of net assets the previous period.

Administrative Expense Breakdown

Nine months ended December 31, 2006 (thousands)

	Nine Months Ended	
	Dec 31, 2006	Dec 31, 2005
Direct fund expenses	$ 1,239	$ 1,736
Internally managed investment pools	2,692	3,484
	3,931	5,220
Externally managed investment pools	36,497	27,170
Total expenses	$ 40,428	$ 32,390
Fair value end of period	$16,284,241	$13,579,303
Expenses as a percent of net assets at fair value	0.25%	0.24%

The decrease in internal expenses of $1.3 million was due to a change in the timing and recognition of internal expenses. Internal expenses billed to the Fund during the past nine months are based on actual costs to date rather than equal monthly billings for the same period last year.

External fees increased by $9.3 million compared to the same period last year. The increase in external managers' fees is due to the increases in the fair value of investments and increases in the allocation to alternative investments.

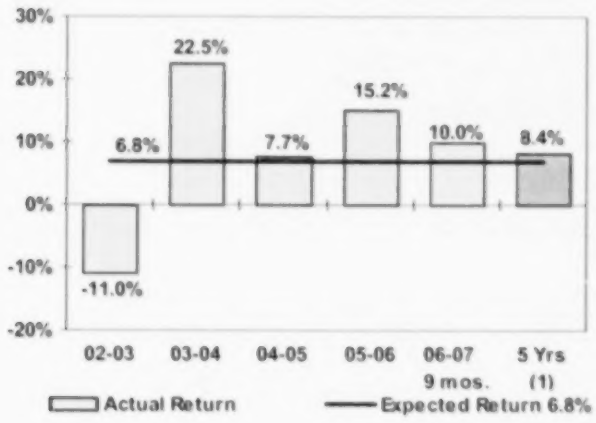
PERFORMANCE MEASUREMENT

Heritage Fund Rate of Return

The Fund's overall return for the third quarter of fiscal 2006-07 was 7.9%, 50 basis points greater than the policy benchmark of 7.4%. One basis point equals 0.01%. The policy benchmark return is the product of the weighted average policy sector weights and the sector benchmark returns. Over nine months, the Fund's overall return of 10.0% exceeded the policy benchmark of 9.0% by 100 basis points or approximately $150 million in added value over market returns.

The performance of the Fund is measured over the long term. Over the past five-year period, the fund generated a nominal annualized overall return of 8.4% compared to both the policy benchmark return of 7.4% and the expected nominal long-term rate of return of 6.8%. The expected nominal annualized return of 6.8% includes the real rate of return of 4.5% plus annualized inflation of 2.3% over a moving five-year period.

Heritage Fund Annual Returns and Annualized 5-Year Return
(at fair value)



(1) Annualized

The following table compares the actual performance of the Fund's investments against various market-based indices (benchmarks). The net value-added represents the difference between the actual return and the policy benchmark, stated in basis points. Value-added by investment management is accomplished through asset mix decisions and security selection.

Comparison of Actual Returns to Benchmarks
Time Weighted Rates of Return

	3rd Quarter	Nine Months	Five Years (1)
OVERALL RETURN - %	**7.9**	**10.0**	**8.4**
Policy Benchmark - % (2)	*7.4*	*9.0*	*7.4*
Net value added - basis points	50	100	100
RETURNS BY SECTOR			
ST fixed income	**1.1**	**2.7**	**2.9**
SC 91-Day T-Bill	*1.0*	*3.1*	*2.9*
Net value added	10	(40)	0
LT fixed income	**1.0**	**5.1**	**7.4**
SC Universe Bond Index	*0.7*	*4.5*	*6.6*
Net value added	30	60	80
Canadian public equities	**9.8**	**9.0**	**13.5**
S&P/TSX Index	*10.4*	*8.6*	*13.1*
Net value added (3)	(60)	40	40
US public equities	**11.8**	**10.1**	**0.1**
S&P 1500 Index	*11.6*	*9.8*	*(0.1)*
Net value added	20	30	20
Non North American equities	**16.2**	**14.7**	**9.1**
MSCI EAFE Index	*15.3*	*15.3*	*8.0*
Net value added	90	(60)	110
Real estate	**9.2**	**18.9**	**15.0**
IPD Large All Property Index	*9.6*	*15.4*	*11.8*
Net value added	(40)	350	320
Absolute return strategies	**4.5**	**7.3**	**n/a**
HFRX Global Hedged Index	*5.0*	*4.4*	*n/a*
Net value added	(50)	290	n/a
Private equities	**5.7**	**10.9**	**n/a**
CPI Plus 8.0%	*1.4*	*7.0*	*n/a*
Net value added	430	390	n/a
Private income	**13.2**	**18.0**	**n/a**
CPI plus 6.0%	*1.0*	*5.5*	*n/a*
Net value added	1220	1250	n/a
Timberland	**1.4**	**4.5**	**n/a**
CPI plus 4.0%	*0.5*	*4.1*	*n/a*
Net value added	90	40	n/a

(1) Returns for five years are annualized.
(2) The policy benchmark returns are the product of the weighted average policy sector weights and the sector benchmark returns.
(3) The under-performance in the third quarter was due to security selection.

Historical Summary of Operations
May 19, 1976 to December 31, 2006
(millions)

	Net Income (loss)	Transfers From GRF	Transfers To GRF	Fund Equity (a)
1976-77	$ 88	$ 2,120	$ (36)	$ 2,172
1977-78	194	931	(87)	3,210
1978-79	294	1,059	(132)	4,431
1979-80	343	1,332	(478)	5,628
1980-81	724	1,445	(227)	7,570
1981-82	1,007	1,434	(350)	9,661
1982-83	1,482	1,370	(1,162)	11,351
1983-84	1,467	720	(1,799)	11,739
1984-85	1,575	736	(1,803)	12,247
1985-86	1,667	685	(1,907)	12,692
1986-87	1,445	217	(1,673)	12,681
1987-88	1,353	-	(1,482)	12,552
1988-89	1,252	-	(1,407)	12,397
1989-90	1,244	-	(1,378)	12,263
1990-91	1,337	-	(1,487)	12,113
1991-92	1,382	-	(1,466)	12,029
1992-93	785	-	(869)	11,945
1993-94	1,103	-	(1,174)	11,874
1994-95	914	-	(963)	11,825
1995-96	1,046	-	(1,046)	11,825
1996-97	932	-	(756)	12,001
1997-98	947	-	(922)	12,026
1998-99	932	-	(932)	12,026
1999-00	1,169	-	(939)	12,256
2000-01	706	-	(706)	12,256
2001-02	206	-	(206)	12,256
2002-03	(894)	-	-	11,362
2003-04	1,133		(1,133)	11,362
2004-05	1,092	-	(1,092)	11,362
2005-06	1,397	1,750	(1,015)	13,494
2006-07 (nine months)	1,194	1,000	(1,042)	14,646
TOTAL	**$ 29,516**	**$ 14,799**	**$ (29,669)**	**$ 14,646**

(a) at cost

ALBERTA HERITAGE SAVINGS TRUST FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2006

(unaudited)

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STATEMENT OF FINANCIAL POSITION

December 31, 2006 (unaudited)
(thousands)

	December 31, 2006	March 31, 2006
Assets		
Portfolio investments (Note 3)	$ 15,015,554	$ 13,681,630
Accrued income and accounts receivable	989	26,433
Administration expense receivable	-	22
	$ 15,016,543	$ 13,708,085
Liabilities		
Accounts payable	$ -	$ 135,842
Due to the General Revenue Fund	370,170	77,684
	370,170	213,526
Net Assets (Note 6)	14,646,373	13,494,559
	$ 15,016,543	$ 13,708,085

STATEMENT OF OPERATIONS AND NET ASSETS

For the Nine Months ended December 31, 2006 (unaudited)
(thousands)

	Three Months Ended Dec 31,		Nine Months Ended Dec 31,	
	2006	2005	2006	2005
Net income (Note 7)	$ 691,221	$ 268,435	$ 1,194,300	$ 914,527
Transfers to the General Revenue Fund (Note 6c)	(681,100)	(157,435)	(1,042,486)	(655,922)
Amount retained for inflation proofing (Note 6c)	10,121	111,000	151,814	258,605
Transfers from the General Revenue Fund (Notes 6a & 6b)	350,000	750,000	1,000,000	750,000
Change in net assets	360,121	861,000	1,151,814	1,008,605
Net Assets at beginning of period	14,286,252	11,510,047	13,494,559	11,362,442
Net Assets at end of period	$ 14,646,373	$ 12,371,047	$ 14,646,373	$ 12,371,047

The accompanying notes and schedules are part of these financial statements.

STATEMENT OF CASH FLOWS

For the Nine Months ended December 31, 2006 (unaudited)
(thousands)

	Three Months Ended Dec 31,		Nine Months Ended Dec 31,	
	2006	2005	2006	2005
Operating transactions				
Net income	$ 691,221	$ 268,435	$ 1,194,300	$ 914,527
Non-cash items included in net income	(95,861)	(4,537)	(136,576)	(94,490)
	595,360	263,898	1,057,724	820,037
Decrease (increase) in accounts receivable	24,338	13,950	25,466	(242)
Decrease in accounts payable	-	(9,006)	(135,842)	(7)
Cash provided by operating transactions	619,698	268,842	947,348	819,788
Investing transactions				
Proceeds from disposals, repayments and redemptions of investments	437,357	128,775	852,317	731,813
Purchase of investments	(1,106,931)	(388,904)	(2,231,902)	(1,522,619)
Cash applied to investing transactions	(669,574)	(260,129)	(1,379,585)	(790,806)
Transfers				
Transfers from the General Revenue Fund	350,000	750,000	1,000,000	750,000
Transfers to the General Revenue Fund	(681,100)	(157,435)	(1,042,486)	(655,922)
Increase (decrease) in amounts due to the General Revenue Fund	331,100	(642,565)	292,486	(144,078)
Cash provided by (applied to) transfers	-	(50,000)	250,000	(50,000)
Decrease in cash	(49,876)	(41,287)	(182,237)	(21,018)
Cash at beginning of period	96,659	91,628	229,020	71,359
Cash at end of period	$ 46,783	$ 50,341	$ 46,783	$ 50,341
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 46,783	$ 50,341	$ 46,783	$ 50,341

The accompanying notes and schedules are part of these financial statements.

Notes to the Financial Statements

December 31, 2006 (unaudited)

NOTE 1 AUTHORITY AND MISSION

The Alberta Heritage Savings Trust Fund operates under the authority of the *Alberta Heritage Savings Trust Fund Act (the Act)*, Chapter A-23, Revised Statutes of Alberta 2000, as amended.

The preamble to the Act describes the mission of the Fund as follows:

"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting.

The accounting policies of significance to the Fund are as follows:

(a) Portfolio Investments

Fixed-income securities, public and private equities, real estate, absolute return strategies, timberland and private income investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Investments in loans are recorded at cost less any allowance for credit loss. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest of a loan, a specific provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Investments are recorded as of the trade date.

The cost of disposals is determined on the average cost basis.

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(b) Investment Income

Investment income, as reported in Note 7, is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability. When a loan becomes impaired, recognition of interest income in accordance with the terms of the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the loan's book value.

Gains and losses arising as a result of disposals of investments are included in the determination of investment income.

Income and expenses from derivative contracts are included in investment income. Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged. As a result, income and expense from derivative contracts designated as hedges are recognized in income on an accrual basis with gains and losses recognized in income to the extent realized.

(unaudited)

Note 2 (continued)

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset being hedged, the risk that is being hedged, type of derivative used and the matching of critical terms of both the hedged security and the hedging derivative for purposes of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps, equity index swaps, equity index futures, forward foreign exchange contracts, credit default swap contracts and options, are recorded at fair value.

(c) Foreign Currency

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. Exchange differences on unhedged transactions are included in the determination of investment income.

(d) Investment Valuation

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, private income, private real estate, loans, absolute return strategies and timberland investments. The fair values of these investments are based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Fair value of investments held either directly by the Fund or by pooled investment funds are determined as follows:

(i) Public fixed-income securities and equities are valued at the period-end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.

(ii) Mortgages, provincial corporation debentures and private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

(iii) The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple analysis.

(iv) The fair value of real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

(unaudited)

Note 2 (continued)

(v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.

(vi) The fair value of loans is estimated by management based on the present value of discounted cash flows.

(vii) The fair value of timberland investments is appraised annually by independent third party evaluators.

(viii) The fair value of deposits, receivables, accrued interest and payables is estimated to approximate their book values.

(ix) The fair value of investments and any other assets and liabilities denominated in a foreign currency is translated at the period-end exchange rate.

(e) Valuation of Derivative Contracts

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts, equity index futures contracts and swap option contracts. As disclosed in Note 4, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated fair value of derivative contracts at the reporting date is determined by the following methods:

(i) Equity and bond index swaps are valued based on changes in the appropriate market-based index net of accrued floating rate interest.

(ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates.

(iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

(iv) Forward foreign exchange contracts and equity index futures contracts are valued based on quoted market prices.

(v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

(unaudited)

NOTE 3 PORTFOLIO INVESTMENTS

	December 31, 2006			March 31, 2006		
	Cost	Fair Value	%	Cost	Fair Value	%
	(thousands)					
Fixed-Income Securities						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 46,783	$ 46,783	0.3	$ 229,020	$ 229,020	1.5
Canadian Dollar Public Bond Pool (b)	4,139,441	4,185,036	25.1	3,877,585	3,888,854	25.9
Private Mortgage Pool (c)	587,247	596,447	3.6	584,319	591,638	3.9
Loans, directly held (d)	98,103	98,103	0.6	102,219	102,219	0.7
Currency Alpha Pool (e)	38,629	40,020	0.2	16,751	17,209	0.1
Tactical Asset Pool (f)	54,368	54,492	0.3	28,921	27,947	0.2
Provincial corporation debentures, directly held	-	-	-	80,927	113,925	0.8
Bonds, notes & short-term paper, directly held	-	-	-	22,315	22,358	0.2
	4,964,571	**5,020,881**	**30.1**	**4,942,057**	**4,993,170**	**33.3**
Public Equities						
Canadian						
Domestic Passive Equity Pooled Fund (g)	1,025,152	1,094,096	6.6	1,032,351	1,131,293	7.5
Canadian Pooled Equity Fund (h)	578,850	744,702	4.5	493,715	666,827	4.4
Canadian Equity Enhanced Index Pool (i)	311,556	359,044	2.1	278,441	332,581	2.2
Canadian Large Cap Equity Pool (j)	264,167	267,816	1.6	230,719	231,602	1.5
Growing Equity Income Pool (k)	135,110	162,089	1.0	106,187	150,261	1.0
Canadian Multi-Cap Pool (l)	299,146	301,704	1.8	203,525	205,931	1.4
Tactical Asset Pool Canadian futures contracts (f)	(216,794)	(216,794)	(1.3)	(146,080)	(146,080)	(1.0)
	2,397,187	**2,712,657**	**16.3**	**2,198,858**	**2,572,415**	**17.0**
United States						
US Structured Equity Pool (m)	1,527,425	1,770,350	10.6	-	-	-
S&P 500 Index Fund	-	-	-	1,472,667	1,629,524	10.9
US Small/Mid Cap Equity Pool (n)	295,015	329,477	2.0	266,559	307,170	2.1
Portable Alpha United States Equity Pool (o)	553,338	584,203	3.5	386,366	382,057	2.5
Growing Equity Income Pool (k)	49,052	53,003	0.3	47,759	46,552	0.3
Tactical Asset Pool US futures contracts (f)	218,974	218,974	1.3	147,487	147,487	1.0
	2,643,804	**2,956,007**	**17.7**	**2,320,838**	**2,512,790**	**16.8**
Non-North American						
EAFE Active Equity Pool (p)	1,813,010	2,119,671	12.7	1,615,625	1,867,616	12.4
EAFE Passive Equity Pool (q)	125,385	131,896	0.8	169,033	238,566	1.6
Emerging Markets Equity Pool (r)	139,233	186,583	1.1	116,466	159,782	1.1
EAFE Structured Equity Pool (q)	442,335	424,182	2.6	264,167	253,781	1.7
	2,519,963	**2,862,332**	**17.2**	**2,165,291**	**2,519,745**	**16.8**
Real Estate						
Private Real Estate Pool (s)	1,128,025	1,624,186	9.8	1,055,710	1,396,862	9.3
Foreign Private Real Estate Pool (t)	66,328	67,443	0.4	44,916	44,042	0.3
	1,194,353	**1,691,629**	**10.2**	**1,100,626**	**1,440,904**	**9.6**
Absolute Return Strategies (u)	**732,959**	**792,063**	**4.8**	**569,151**	**571,720**	**3.8**
Private Equities (v)	**341,401**	**382,559**	**2.3**	**243,179**	**258,322**	**1.7**
Private Income (v)	**163,945**	**179,579**	**1.1**	**81,688**	**81,948**	**0.6**
Timberland (w)	**57,371**	**55,715**	**0.3**	**59,942**	**56,454**	**0.4**
Total Investments (x)	**$ 15,015,554**	**$ 16,653,422**	**100.0**	**$ 13,681,630**	**$ 15,007,468**	**100.0**

(unaudited)

Note 3 (continued)

The majority of the Fund's investments are held in pooled investment funds established and administered by Alberta Finance. Pooled investment funds have a market based unit value that is used to allocate income to participants and to value purchases and sales of pool units. As at December 31, 2006, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	December 31, 2006	March 31, 2006
Absolute Return Strategy Pool	86.9	88.5
Canadian Dollar Public Bond Pool	41.4	40.2
Canadian Equity Enhanced Index Pool	25.9	25.8
Canadian Large Cap Equity Pool	13.6	12.6
Canadian Multi-Cap Pool	45.5	56.9
Canadian Pooled Equity Fund	55.8	54.5
Currency Alpha Pool	37.2	28.9
Domestic Passive Equity Pooled Fund	46.2	42.3
EAFE Active Equity Pool	31.7	31.7
EAFE Passive Equity Pool	76.5	76.5
EAFE Structured Equity Pool	33.0	24.0
Emerging Markets Equity Pool	26.7	26.4
Foreign Private Equity Pool (02)	87.5	43.8
Foreign Private Equity Pool (05)	87.3	87.3
Foreign Private Real Estate Pool	87.1	87.1
Growing Equity Income Pool	56.6	55.8
Portable Alpha United States Equity Pool	84.2	87.9
Private Equity Pool	13.6	13.6
Private Equity Pool (98)	100.0	100.0
Private Equity Pool (02)	88.8	62.1
Private Equity Pool (04)	89.0	77.0
Private Income Pool	25.7	25.7
Private Income Pool 2	86.7	86.7
Private Mortgage Pool	38.7	43.4
Private Real Estate Pool	36.7	37.1
Standard & Poor's 500 Index Fund	-	71.8
Tactical Asset Allocation Pool	83.7	86.7
Timberland Pool	87.6	87.6
US Small/Mid Cap Equity Pool	25.8	25.2
US Structured Equity Pool	38.5	-

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at December 31, 2006, securities held by the Fund have an average effective market yield of 4.55% per annum (March 31, 2006: 3.96% per annum).

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing above average returns compared to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The excess return is achieved through management of portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed-income instruments and debt related derivatives. As at December 31, 2006, securities held by the Pool have an average effective market yield of 4.6% per annum (March 31, 2006: 4.7% per annum) and the following term structure based on principal amount: under 1 year: 2% (March 31, 2006:

(unaudited)

Note 3 (continued)

2%); 1 to 5 years: 35% (March 31, 2006: 34%); 5 to 10 years: 33% (March 31, 2006: 33%); 10 to 20 years: 11% (March 31, 2006: 12%); and over 20 years: 19% (March 31, 2006: 19%).

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the Scotia Capital Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (93.9%) and provincial bond residuals (6.1%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at December 31, 2006, securities held by the Pool have an average effective market yield of 11.27% per annum (March 31, 2006: 5.27% per annum) and the following term structure based on principal amount: under 1 year: 5% (March 31, 2006: 2%); 1 to 5 years: 14% (March 31, 2006: 19%); 5 to 10 years: 54% (March 31, 2006: 50%); 10 to 20 years: 7% (March 31, 2006: 10%); and over 20 years: 20% (March 31, 2006: 19%).

(d) Investments in loans are recorded at cost. The fair value of loans is estimated by management based on the present value of discounted cash flows. As at December 31, 2006, investment in loans, at cost, include the Ridley Grain loan amounting to $95,750 (March 31, 2006: $100,000) and the Vencap loan amounting to $2,353 (March 31, 2006: $2,219).

- Under the terms of the loan to Ridley Grain, 11% Participating First Mortgage Bonds due July 31, 2015, interest is compounded semi-annually and payable annually to the extent of available cash flow and any shortfall is to be deferred and capitalized. The principal of $95,750 and deferred interest is repayable on or before July 31, 2015. Deferred interest at December 31, 2006 amounted to $90,161 (March 31, 2006: $90,161). Grain throughput volumes are the main determinant of profitability of the grain terminal and the value of the loan to the Fund. Due to the uncertainty of forecasting the grain throughput volumes, income from the participating bonds is recognized when it is measurable and collectable.
- The principal amount of the Vencap loan, amounting to $52,588, is due July 2046 and bears no interest. The increase in the carrying value of the Vencap loan resulted from amortization of the loan on a constant yield basis.

(e) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year moving period while reducing return volatility through multiple manager investment style and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts. Participants deposit into the Pool a modest amount of cash to minimize rebalancing of cash flows in or out of the Pool when the forward foreign exchange contracts settle.

(f) The Tactical Asset Allocation Pool provides participants with a quick, effective and efficient way to earn excess returns, on an opportunistic basis, by altering the portfolio weights of broad asset classes using synthetic instruments. At December 31, 2006, the Pool is comprised of a long position through United States equity index futures contracts and a short position through Canadian equity index futures contracts. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in Canadian and United States equity index futures contracts.

(g) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the pool. FRNP is managed with the objective of

(unaudited)

Note 3 (continued)

generating floating rate income needed for the swap obligations in respect of structured investments in foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of five years or less.

(h) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Composite Index while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection while remaining sector neutral.

(i) The Canadian Equity Enhanced Index Pool allows participants the opportunity to gain investment exposure to the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The portfolio is comprised of publicly traded equities in Canadian corporations. The enhanced index generates a consistent level of return above the Index with relatively low risk. The Pool's investment in units of the FRNP are used as the underlying securities to support the index swaps of the pool (see Note 3 (g)).

(j) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. The portfolios are actively managed by external managers with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

(k) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income by investing in mature Canadian and U.S. companies with strong financial characteristics and growing distributions. Risk is reduced by holding established, well-capitalized companies. The performance of the pool is measured against the total return of a custom S&P/TSX Composite Index for dividend paying stocks.

(l) The Canadian Multi-Cap Pool allows participants to gain investment exposure to the Canadian equity market through internally managed structured investments replicating the S&P/TSX 60 Index and external actively managed Canadian small and mid cap investments. The performance of the pool is measured against the total return of the S&P/TSX Composite Index over a four-year moving average period. The Pool's investment in units of the FRNP are used as the underlying securities to support the index swaps of the pool (see Note 3 (g)).

(m) On November 30, 2006, all investments held in the Standard & Poor's 500 Index Fund were transferred to the newly created US Structured Equity Pool. Publicly traded U.S. equities held in US Structured Equity Pool replicate the Standard & Poor's (S&P) 500 Index. The performance objective is to provide returns comparable to the total return of the S&P 500 Index over a four-year period. The Pool's investment in units of the FRNP are used as the underlying securities to support the index swaps of the pool (see Note 3 (g)).

(n) The U.S. Small/Mid Cap Equity Pool consists of one portfolio of publicly traded United States equities. The portfolio is actively managed by an external manager with expertise in the small cap and mid cap U.S. equity market. The performance objective is to provide returns higher than the total return of the Russell 2500 Index over a four-year period.

(o) The Portable Alpha United States Equity Pool consists of futures and swap contracts which provide exposure to the U.S. equity market by replicating the S&P 500 Index and investments in value added absolute return strategies. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.

(unaudited)

Note 3 (continued)

(p) The Europe, Australasia and Far East (EAFE) Active Equity Pool consists of multiple portfolios of publicly traded non-North American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

(q) The EAFE Passive Equity Pool and the EAFE Structured Equity Pool are managed with the objective to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period. The EAFE Passive Equity Pool consists of one portfolio of non-North American publicly traded equities that replicates the MSCI EAFE Index. The EAFE Structured Equity Pool provides exposure to EAFE markets through the use of structured investments such as foreign equity index swaps. The structured pool also invests in the FRNP to generate the floating rate cash flows needed for its equity swap obligations (see Note 3 (g)).

(r) The Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolio is actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the MSCI Emerging Markets Free (MSCI EMF) Index over a four-year period.

(s) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. Real estate is held through intermediary companies, which have issued, to the Pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the Pool provides diversification from the securities market with opportunities for high return.

(t) The Foreign Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. The Pool provides diverse exposure to non-domestic real estate by investing in foreign real estate backed securities and assets.

(u) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Hedge Fund Research Inc. Global Index. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

(v) Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8.0%. The Private Equity Portfolio consists of the Private Equity Pool, PEP98, PEP02, PEP04, the Foreign Private Equity Pool 2002 and the Foreign Private Equity Pool 2005. Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool. The Private Income Pool invests in infrastructure related projects that are structured to yield high current income with the objective of providing investment returns higher than the CPI plus 6.0%.

(w) The Timberland Pool provides high current income and long investment horizons. The timberland investment is a partnership interest in forestry land in British Columbia. The performance objective is to earn a return higher than CPI plus 4%.

(x) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). Where the fair value remains less than cost after recording a writedown, it is management's best judgement, based on the cyclical nature of stock markets, that the decline in value is caused by short-term market trends and is temporary in nature.

(unaudited)

NOTE 4 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

(i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.

(ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) An equity index futures contract is an agreement to receive or pay cash based on changes in the level of the specified stock index.

(iv) Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specific period of time.

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2006:

	Maturity			December 31, 2006		March 31, 2006	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
				(thousands)			
Equity index swap contracts	76%	24%	-	$ 3,471,450	$ 107,304	$ 2,460,014	$ 45,423
Interest rate swap contracts	7%	51%	42%	3,228,594	(1,195)	1,053,569	(2,391)
Forward foreign exchange contracts	100%	-	-	2,256,273	(27,576)	1,554,419	(1,980)
Cross-currency interest rate swaps	18%	31%	51%	939,763	30,063	711,678	52,051
Credit default swap contracts	2%	17%	81%	2,198,820	2,316	1,298,187	2,984
Bond index swap contracts	100%	-	-	1,176,813	4,099	236,998	24,470
Equity index futures contracts	100%	-	-	1,121,001	36,350	782,574	15,652
Swap option contracts	73%	10%	17%	3,869,338	(2,825)	-	-
				$ 18,262,052	$ 148,536	$ 8,097,439	$ 136,209

(a) The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Fund attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing (A+ or greater).

(b) The method of determining the fair value of derivative contracts is described in Note 2 (e).

(unaudited)

NOTE 5 INVESTMENT RISK MANAGEMENT

Income and financial returns of the Fund are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the business plan of the Fund. In order to earn an optimal financial return at an acceptable level of risk, the 2006-2009 Business Plan proposed the following asset mix policy for the Fund.

Public equities	45.0%
Fixed income securities	30.0%
Real estate	10.0%
Absolute return strategies	5.0%
Private equities	4.0%
Private income	4.0%
Timberland	2.0%

Risk is reduced through asset class diversification, diversification within each asset class, quality and duration constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 4). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 4).

(unaudited)

NOTE 6 NET ASSETS

Net assets represent the difference between the carrying value of assets held by the Fund and its liabilities. The following table shows accumulated net income and transfers from (to) the General Revenue Fund (GRF) since the Fund was created on May 19, 1976:

	Cumulative since 1976	
	December 31, 2006	March 31, 2006
	(thousands)	
Transfers from the General Revenue Fund		
Resource Revenue (1976-1987)	$ 12,049,324	$ 12,049,324
Access to the Future (a)	1,000,000	750,000
Voted Payments (b)	1,750,000	1,000,000
	14,799,324	13,799,324
Accumulated net income	29,515,892	28,321,592
Transfers to General Revenue Fund (c)		
Section 8(2) transfers		
Income	(27,147,522)	(25,953,222)
Amount Retained for Inflation-proofing	964,567	812,753
	(26,182,955)	(25,140,469)
Capital Expenditures (1976-1995) (d)	(3,485,888)	(3,485,888)
	(29,668,843)	(28,626,357)
Net Assets, at cost	**$ 14,646,373**	**$ 13,494,559**
Net Assets, at fair value	**$ 16,284,241**	**$ 14,820,397**

(a) Section 9.1 of the Act and Section 4(5) of the *Access to the Future Act* provides that up to $3 billion may be transferred from the GRF to the Fund. During the period, the Fund received $250 million on account of the "*Access to the Future Act.*"

(b) The Fund received $1 billion from the GRF on March 20, 2006 under *The Appropriation (Supplementary Supply) Act*, 2006. During the period the Fund received $750 million from GRF.

(c) In accordance with section 8(2) of the *Alberta Heritage Savings Trust Fund Act (the Act)*, the Fund transferred $1,042 million to the GRF for the period. The Act states that the net income of the Heritage Fund, totalling $1,194 million, less any amount retained in the Fund to maintain its value, in accordance with section 11(1), totalling $152 million, shall be transferred to the GRF annually in a manner determined by the Minister of Finance. The estimated amount retained from income of the Fund is determined by multiplying the total equity of the Fund before the amount retained for inflation proofing by the estimated percentage increase in the Canadian gross domestic product price index (GDP Index) for the period.

(d) Capital expenditures include transfers of $300 million to the Alberta Heritage Foundation for Medical Research in 1980 and $100 million to the Alberta Heritage Scholarship Fund in 1981.

(unaudited)

NOTE 7 NET INCOME

	Three Months Ended Dec 31,		Nine Months Ended Dec 31,	
	2006	2005	2006	2005
	(thousands)			
Deposit and fixed-income securities	$ 97,193	$ 61,212	$ 246,887	$ 234,182
Canadian equities	159,246	95,547	294,361	369,405
United States equities	117,812	10,451	138,593	27,161
Non-North American equities	267,755	42,935	387,044	179,450
Real estate	66,026	29,060	112,138	67,285
Absolute return strategies	(30,954)	23,142	(9,171)	20,208
Private equities	10,483	6,322	14,635	6,201
Private income	6,410	1,486	10,461	12,824
Timberland	(2,361)	(1,195)	591	(453)
Investment income	**691,610**	**268,960**	**1,195,539**	**916,263**
Direct administrative expenses (Note 8)	(389)	(525)	(1,239)	(1,736)
Net income	**$ 691,221**	**$ 268,435**	**$ 1,194,300**	**$ 914,527**

Investment income is comprised of interest, dividends, amortization of discount and premiums, swap income, security lending income and realized gains and losses, net of write-downs, on investments. The Fund's share of income earned from externally and internally managed investment pools is net of administrative expenses incurred by the pools (see Note 8).

The investment income for the nine months ended December 31, 2006 includes writedowns totalling $37,165 (December 31, 2005: $27,230).

NOTE 8 ADMINISTRATIVE EXPENSES

External management fees and internal management expenses are deducted directly from the income from pooled investment funds. Alberta Finance charges direct fund and internal management expenses on a cost recovery basis. External management fees are based on a percentage of net assets under management at fair value and committed amounts in the case of private equity and private income pools. Comparative figures have been restated to include estimated indirect external management fees deducted directly from income of private equity and private income investments, real estate, timberland and absolute return strategies.

	Three Months Ended Dec 31,		Nine Months Ended Dec 31,	
	2006	2005	2006	2005
	(thousands)			
Direct fund expense (Note 7)	$ 389	$ 525	$ 1,239	$ 1,736
External management fees	15,452	9,152	36,497	27,170
Internal management expenses	1,050	1,053	2,692	3,484
Total	$ 16,891	$ 10,730	$ 40,428	$ 32,390
Percent of net assets at fair value	0.104%	0.079%	0.248%	0.239%

(unaudited)

NOTE 9 INVESTMENT PERFORMANCE

The following is a summary of the overall investment performance results attained by the Fund determined on a fair value basis:

	Three Month Return	Nine Month Return	Five Year Compound Annualized Return
Time-weighted rates of return			
Overall actual return	7.9%	10.0%	8.4%
Benchmark return (1)(2)	7.4%	9.0%	6.8%

(1) The overall benchmark return for the three months and nine months ended December 31, 2006 is a product of the weighted average policy sector weights and the sector benchmark returns.

(2) The Fund is expected to generate a real rate of return of 4.5% over a moving five-year period based on the Fund's business plan. Over a five-year period, the annualized inflation rate was 2.3%. Therefore, the fund is expected to generate a nominal annualized rate of return of 6.8%.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance approved these financial statements.

Alberta Finance